



# Instructions for Form 1118

(Revised February 1989)

## Computation of Foreign Tax Credit—Corporations

(Section references are to the Internal Revenue Code unless otherwise noted.)

**Paperwork Reduction Act Notice.**—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to IRS
1118	71 hrs., 31 min.	17 hrs., 13 min.	21 hrs., 38 min.
Sch. I (1118)	8 hrs., 51 min.	1 hr.	1 hr., 11 min.
Sch. J (1118)	89 hrs., 12 min.	1 hr., 5 min.	2 hrs., 35 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedules more simple, we would be happy to hear from you. You can write to either IRS or the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

## Important Changes You Should Note

- The following new schedules have been added to Form 1118:

### **Schedule F, Gross Income and Definitely Allocable Deductions From Sources Outside The U.S. Under Section 863(b) and For Foreign Branches**

This new schedule requires information previously required in Schedule A.

### **Schedule G, Reductions of Taxes Paid, Accrued or Deemed Paid (Including Computation of Reduction For Taxes Under Section 901(j))**

This new schedule requires information regarding the extent to which you have been denied foreign tax credits due to the application of section 901(j). It also allows you to summarize all of your reductions of taxes paid, accrued, or deemed paid.

### **Schedule H, Apportionment of Deductions Not Definitely Allocable**

This new schedule requires information regarding how you apportioned "deductions not definitely allocable" in determining separate limitation income. The schedule reflects the changes brought about by Temporary Regulations sections 1.861-8T through 1.861-14T and the Technical and Miscellaneous Revenue Act of 1988 (TAMRA).

- Due to the addition of the three new schedules described above, the two separate schedules (previously Schedules F and G) have been redesignated as separate Schedules I and J (respectively).

The title of new separate Schedule J has been modified to reflect changes made to the schedule. Schedule J, Part I reflects the official position of the IRS (as set forth in Notice 89-3, 1989-2 I.R.B. 13) regarding the ordering of the allocations and other adjustments to separate limitation income or losses in determining numerators of the limitation fractions for each separate limitation. Schedule J, Part II is new. It requires year-end balances of separate

limitation income that was allocated among other separate limitations (in the current year or in prior years) that have yet to be recharacterized. Schedule J, Part III generally requires the same information required in Part II of the previous version of Schedule G (Form 1118).

## Items To Note

- Temporary Regulations sections 1.905-3T, 1.905-4T and 1.905-5T were issued to provide additional information and guidance regarding your obligation to file notice of a foreign tax redetermination or to make an adjustment to your pools of foreign taxes and earnings and profits (E&P), as the case may be, and the civil penalty for failure to file notice or make such adjustment. See General Instruction L for details.
- TAMRA section 1012(a) modified the definitions of the following separate limitation categories: (1) "passive income," (2) "high withholding tax interest," (3) "financial services income," (4) "shipping income," and (5) "dividends from each noncontrolled section 902 corporation." See General Instructions C(1) through C(5) for new definitions.

## General Instructions

### A. Who Must File

Any corporation that elects the benefits of the foreign tax credit under section 901 must attach Form 1118 to its income tax return.

**Important:** For any tax year that a corporation elects the benefits of the foreign tax credit to any extent, that corporation is not permitted to claim a deduction (in the current tax year or in any subsequent tax year) for any portion of the foreign taxes paid or accrued during that tax year. See General Instruction K for more information.

**Note:** A regulated investment company that has made an election under section 853 cannot claim the foreign tax credit (or take a deduction) for foreign taxes paid.

### B. Filing Requirements

The corporation must complete Form 1118 to separately compute the foreign tax credit for

each of several statutory categories of income. See General Instruction C for descriptions of these "separate limitations."

For each separate limitation, the corporation computes its separate limitation income or (loss) before adjustments on Schedule A using the general rules outlined in General Instruction D. That income or loss is carried over to Schedule B, Part II and is used in determining the "limitation on the foreign tax credit" (defined in General Instruction E).

**Note:** You must report all amounts in U.S. dollars unless otherwise specified. If it is necessary to convert from a foreign currency, attach a statement explaining how you determined the rate.

**Note also:** Schedule A; Schedule B, Parts I & II; Schedules C through G; and Schedule I are completed for each applicable separate limitation whereas Schedule B, Part III; Schedule H; and Schedule J are generally completed only once.

## C. Descriptions of Separate Limitation Categories

### (1) Passive Income

Generally, the term "passive income" means: (a) any income you receive or accrue that is of a kind that would be "foreign personal holding company income" (as defined in section 954(c)) if you were a "controlled foreign corporation" (CFC) (as defined in section 957), including any amount of gain on the sale or exchange of stock in excess of the amount treated as a dividend under section 1248. However, in determining whether any income is of a kind that would be foreign personal holding company income, the rules of section 864(e)(6) will apply only in the case of income of a CFC; and (b) any amount includible in gross income under sections 551 and 1293 (which relate to foreign personal holding companies and certain passive foreign investment companies).

**Exceptions.**—Passive income does not include: (a) any income that belongs in one of the other separate limitation categories described in (2) through (8) below; (b) any "export financing interest" (defined in section 904(d)(2)(G)) unless such income is also "related person factoring income" as defined in the "interaction" rule of Regulations section 1.904-4(h)(3); (c) any "high-taxed income" (as defined in section 904(d)(2)(F)); or (d) any foreign oil and gas extraction income (as defined in section 907(c)).

Also, passive income generally does not include any "active rents or royalties." See Regulations section 1.904-4(b)(2) for definition and for exceptions.

**Note:** Certain income you receive from a CFC that would otherwise be passive income may be assigned to another "separate category" under the "look-through rules" (discussed after (9) below).

### (2) High Withholding Tax Interest

"High withholding tax interest" is any interest subject to a withholding tax or other gross basis tax of a foreign country or U.S. possession at a rate of 5% or more.

High withholding tax interest does not include: (a) "export financing interest" (as defined in section 904(d)(2)(G)); (b) any interest you received or accrued on any "pre-1990 qualified loan" (as defined in section 1201(e)(2)(C) of the Tax Reform Act of 1986 ("1986 Act")); or (c) the "phase-out percentage" (as defined in section 1201(e)(2)(B) of the 1986 Act) of any interest you receive or accrue on any "post-1989 qualified loan" (as defined in section 1201(e)(2)(D) of the 1986 Act).

**Note:** For purposes of applying the rules outlined in (b) and (c) above, all members of an affiliated group of corporations filing a consolidated return are to be treated as one corporation.

### (3) Financial Services Income

"Financial services income" is generally any income you receive or accrue while you are a "financial services entity" (as defined in Regulations section 1.904-4(e)(3)) that is: (a) described in section 904(d)(2)(C)(ii); (b) passive income (determined without regard to section 904(d)(2)(A)(ii)(b)); or (c) "export financing interest" (as defined in section 904(d)(2)(G)) that would be high withholding tax interest but for section 904(d)(2)(B)(ii).

Financial services income does not include: (a) any high withholding tax interest; (b) any dividend from a noncontrolled section 902 corporation; and (c) any export financing interest not described in section 904(d)(2)(C)(i)(III).

**Note:** If you qualified as a financial services entity because you treated certain amounts as "active financing income" that are not listed in Regulations sections 1.904-4(e)(2)(i)(A) through (X), but that are described as "similar items" in Regulations section 1.904-4(e)(2)(i)(Y), you must attach a statement to Form 1118 showing the types and amounts of the similar items.

### (4) Shipping Income

"Shipping income" is any income you receive or accrue that is "foreign base company shipping income" (as defined in section 954(f)).

Shipping income does **not** include:

(a) any dividend from a noncontrolled section 902 corporation; (b) any financial services income; or (c) any high withholding tax interest.

### (5) Dividends From Each Noncontrolled Section 902 Corporation

A "noncontrolled section 902 corporation" is any foreign corporation with respect to which you meet the stock ownership requirements of section 902(a) (or, for purposes of applying section 904(d)(3), the requirements of section 902(b)). A CFC is not to be treated as a noncontrolled section 902 corporation with respect to any distribution out of its E&P for periods during which: (a) it was a CFC; and (b) except as provided in regulations, you were a U.S. shareholder in the CFC.

See section 904(d)(2)(E)(ii) for a special rule for taxes on high withholding tax interest of the noncontrolled section 902 corporation.

### (6) Dividends From a DISC or Former DISC

Include in this separate limitation category dividends from a DISC or former DISC (as defined in section 992(a)) to the extent such dividends are treated as income from sources outside the United States.

### (7) Taxable Income Attributable to Foreign Trade Income

Include in this separate limitation category taxable income attributable to foreign trade income within the meaning of section 923(b).

### (8) Certain Distributions From a FSC or Former FSC

Include in this separate limitation category distributions from a FSC (or former FSC) out of E&P attributable to "foreign trade income" (within the meaning of section 923(b)) or "qualified interest and carrying charges" (which means any interest or carrying charges (as defined in section 927(d)(1)) derived from a transaction that results in foreign trade income).

### (9) General Limitation Income

This is the residual category. Include all income not described in the definitions of the other separate limitations listed above. Be sure to include "high-taxed income" that would otherwise be passive income. Generally, income is "high-taxed" if the total foreign income taxes paid, accrued, or deemed paid by the taxpayer with respect to such income exceed the highest rate of tax specified in section 1 or 11, whichever applies (and with reference to section 15 if applicable), multiplied by the amount of such income (including the amount treated as a dividend under section 78).

**Look-Through Rules.**—Generally, any dividends, interest, rents, and royalties you receive or accrue from a CFC in which you are a U.S. shareholder is not income in a "separate category" (as defined in section 904(d)(3)(F)). However, section 904(d)(3) provides the following exceptions:

(a) Subpart F inclusions, to the extent such amounts (that are included in income under section 951(a)(1)(A)) are attributable to income in a separate category;

(b) Interest, rents, and royalties, to the extent they are properly allocable (in accordance with the underlying regulations) to income of the CFC in such category; and

(c) Dividends (that are paid out of the E&P of the CFC), in proportion to the ratio of the portion of E&P attributable to income in such category to the total amount of E&P.

See section 904(d)(3) and Regulations section 1.904-5.

### D. General Rules For Computing Separate Limitation Income or (Loss) Before Adjustments

**(1) General Source Rules.**—Determine your separate limitation income or loss before adjustments on Schedule A using the following rules, as applicable: (a) the general source rules of sections 861 through 864 (and underlying regulations) outlined below; (b) the specific source rules of section 904(g) described below; and (c) any applicable source rules that are contained in any applicable tax treaties.

Section 861 lists gross income items that are to be treated as U.S. sourced and section 862 lists gross income items that are to be treated as foreign sourced. Section 863 provides for the allocation or apportionment of gross income items not listed in either section 861 or 862 (including "income partly from within and partly from without the U.S."). Section 864 provides special rules for the treatment of "effectively connected income" and "related person factoring income" and for the allocation and apportionment of interest and other expenses. **Note:** The basic rules for allocating and apportioning interest expense, research and development (R&D) deductions, and other expenses are described in detail in the Specific Instructions for Schedule H.

Section 904(g)(1) states that, generally, the following types of income that you derive from a "United States-owned foreign corporation" (as defined in section 904(g)(6)) that would otherwise be treated as foreign source income must be treated as U.S. source income, but only to the following extent:

(a) any "subpart F income" (defined in section 951(a)), "foreign personal holding company income" (defined in section 551), or "income from a qualified electing fund" (defined in section 1293) that a U.S. shareholder is required to include in its gross income—to the extent such amount is attributable to the United States-owned foreign corporation's U.S. source income;

(b) interest—to the extent it is properly allocable (under the underlying regulations) to the United States-owned foreign corporation's U.S. source income; and

(c) dividends—to the extent of the "United States source ratio" (defined in section 904(g)(4)(B)).

See section 904(g)(5) for an exception to the rules regarding interest and dividends described in (b) and (c) above in the case of a U.S.-owned foreign corporation that has a small amount of U.S. source income.

**(2) Capital Gains.**—Special rules apply for purposes of determining the extent to which income from the sale of capital assets is to be included in the numerator and denominator of the limitation fraction for each applicable separate limitation.

Section 904(b)(2)(A) states that your "taxable income from sources outside the United States" (which you compute on Schedule A for each separate limitation) generally includes gain from the sale or exchange of capital assets only to the extent of "foreign source capital gain net income" (which is defined in section 904(b)(3)(A) as the lesser of capital gain net income from sources outside the U.S. or capital gain net income). Therefore, if you have foreign source capital gain net income that is in excess of your capital gain net income from all sources, enter the excess on Schedule A, column 9d as a negative number.

Furthermore, if you use foreign source capital losses to reduce U.S. source capital gains, another rule applies to the numerator of the limitation fraction for each applicable separate limitation. For an example of this limitation, see Regulations section 1.904(b)-2(c), Example (2).

**Note:** See sections 904(b)(2)(B) for special rules in the case of any tax year for which there is a "capital gain rate differential" (as defined in section 904(b)(3)(D)). At the time these instructions went to print, there was no capital gain rate differential.

**(3) Coordination with Section 936.**—Any income taken into account in computing the possessions tax credit under section 936 is excluded from taxable income in computing the foreign tax credit limitation. (Section 904(b)(4).)

### (4) Foreign Corporations Claiming Credit.

For purposes of computing the foreign tax credit limitation, the foreign corporation's taxable income shall be treated as consisting only of the taxable income that is effectively connected with the conduct of a trade or business within the U.S. (Section 906(b)(2).)

### E. Limitation on the Foreign Tax Credit

The section 904 limitation on the foreign tax credit must be applied separately for each category of income listed in General Instruction C.

The section 904 limitation is comprised of:

(1) the numerator, which is generally computed on Schedule J and then entered on Schedule B, Part II, line 6; and (2) the denominator, which is computed on Schedule B, Part II, lines 7a through 7c. The limitation fraction is not permitted to exceed "1.00" for any separate limitation.

The limitation may be increased under section 960(b) for any tax year during which you receive a distribution of previously taxed E&P. See section 960(b)(2) and Regulations section 1.960-4 for rules regarding the computation of the increase in the limit.

### F. Foreign Taxes for Which Credit May Be Claimed

Section 901(b)(1) states that, generally, a domestic corporation is allowed to claim the foreign tax credit (subject to the

limitation of section 904) for the amount of any "income, war profits, and excess profits taxes" (defined in Regulations section 1.901-2) paid or accrued during the tax year to any foreign country or to any possession of the United States, and for taxes deemed paid under sections 902 and 960. (For these purposes, "allowable foreign taxes" also includes "taxes paid in lieu of income taxes" as described in section 903 and the regulations thereunder.) However, this general rule is qualified as follows:

- (1) No credit (or deduction) is allowed for certain payments for oil and gas" (described in section 901(f));
- (2) No credit (or deduction) is allowed for "certain taxes paid with respect to distributions from possessions corporations" (described in section 901(g));
- (3) No credit is allowed for "taxes paid with respect to foreign trade income" (described in section 901(h));
- (4) No credit (or deduction) is allowed for "certain taxes used to provide subsidies" (described in section 901(i));
- (5) No credit is allowed for taxes paid or accrued (or deemed paid under section 902 or section 960) to any section 901(j) foreign country (see the Specific Instructions for Schedule G, Part I for list);
- (6) No credit is allowed if you make the election to deduct taxes paid or accrued to any foreign country or U.S. possession. (Regulations section 1.901-1(h)(2));
- (7) No credit (or deduction) is allowed for taxes that were reduced under section 907(a);
- (8) No credit is allowed for certain "foreign taxes on foreign oil related income" (described in section 907(b));
- (9) No credit (or deduction) is allowed for any tax paid or accrued to a foreign country or U.S. possession with respect to taxable income that is taken into account in computing the possessions tax credit described in section 936. (Section 936(c).);
- (10) No credit (or deduction) is allowed for taxes "attributable to income excluded under section 814(a)" (relating to contiguous country branches of domestic life insurance companies); and
- (11) No credit is allowed if you elect instead to claim a credit under the terms of an applicable tax treaty.

In addition to the above listed items, some "foreign taxes" that are otherwise eligible for the foreign tax credit must be reduced using the rules outlined in the Specific Instructions for Schedule G. These include certain gross basis foreign taxes described in the special rule of Regulations section 1.904-4(g)(2)(iii) regarding dividends from a noncontrolled section 902 corporation out of E&P attributable to high withholding tax interest.

## G. Proof of Credits

The requirements of section 905(b) (and the regulations thereunder) have been eased by the issuance of Notice 88-65, 1988-25 I.R.B. 41, in which the IRS announced it will issue regulations suspending all but the first sentence of Regulations section 1.905-2(a)(2) and all of Regulations section 1.905-2(b). The suspension is effective beginning January 1, 1988. **Caution:** *Foreign tax credits must still be substantiated with proper documentation that must be available for examination on request. (See Rev. Rul. 67-308, 1967-2 C.B. 254.) The suspension of the regulations merely means that, until further notice, the documentation previously required by the regulations need not be submitted when the return is filed.*

Substantiation that is still required to be attached to Form 1118 includes: (1) A schedule that shows the amounts of foreign taxes paid or accrued in foreign currency and the conversion rate(s) used in arriving at the U.S. dollar amounts entered in Schedule B, Part I, column 2; and (2) A statement that identifies any foreign taxes paid or accrued that resulted from an audit adjustment made by a foreign taxing authority.

**Note:** *If you claim a foreign tax credit for tax accrued but not paid, IRS may require you to furnish a bond on Form 1117, Income Tax Surety Bond, as a condition precedent to the allowance of the credit. (Regulations section 1.905-2(d).)*

## H. Carryback and Carryover of Excess Allowable Foreign Taxes Paid

The amount of "allowable foreign taxes" paid, accrued or deemed paid (as defined in General Instruction F) in a tax year in excess of the foreign tax credit limitation for that tax year generally may be carried back 2 years and then forward 5 years. The excess must first be applied to the earliest of the 7 years to which it may be carried, then to the next earliest year, etc. See section 904(c) and Regulations section 1.904-2 for more details.

## Transitional Rules

- (1) Taxes paid or accrued in a pre-1987 tax year with respect to the pre-1987 "nonbusiness interest" separate limitation are to be carried over to the post-1986 "passive income" separate limitation.
- (2) Taxes paid or accrued in a pre-1987 tax year with respect to the pre-1987 "general limitation income" separate limitation are to be carried over to the post-1986 "general limitation income" separate limitation except that: (a) such taxes are to be carried over to the post-1986 "shipping income" separate limitation to the extent the corporation establishes to the satisfaction of the IRS that such taxes were paid or accrued with respect to "shipping income;" (b) in the case of a financial services entity, such taxes are to be carried over to the post-1986 "financial services income" separate limitation to the extent the corporation establishes to the IRS that such taxes were paid or accrued with respect to "financial services income;" and (c) such taxes are to be carried over to the post-1986 "high withholding tax interest" separate limitation to the extent the corporation establishes to the IRS that such taxes were paid or accrued with respect to "high withholding tax interest."
- (3) Taxes paid or accrued in a pre-1987 tax year with respect to any of the following pre-1987 separate limitations are to be carried over to the corresponding post-1986 separate limitation: (a) "dividends from a DISC or former DISC;" (b) "taxable income attributable to foreign trade income;" and (c) "certain distributions from a FSC or former FSC."

See section 1205 of the 1986 Act for rules regarding a limitation on the carryback of foreign tax credits to pre-1987 tax years.

See sections 907(e) and 907(f) for rules regarding the carryback and carryover of related taxes and foreign oil and gas extraction taxes paid or accrued in excess of the section 907(a) limitation.

## I. Definition of "Foreign Corporation" For Purposes of the Deemed Paid Credit

For purposes of computing the deemed paid credit on Schedules C, D, and E, the term "foreign corporation" includes: (1) a DISC or former DISC (as defined in section 992(a)), but only with respect to dividends from the DISC or former DISC to the extent such dividends are

treated under sections 861(a)(2)(D) and 862(a)(2) as income from sources outside the U.S.; and (2) a contiguous country life insurance branch that has made an election to be treated as a foreign corporation under section 814(g).

## J. Foreign Corporations Claiming Foreign Tax Credit

Section 906 allows foreign corporations a foreign tax credit for income, war profits, and excess profits taxes paid or accrued (or deemed paid or accrued under section 902) to any foreign country or U.S. possession with respect to income effectively connected with the conduct of a trade or business within the U.S. The credit is not applicable, however, if the tax is imposed by a foreign country or U.S. possession on income from U.S. sources solely because the foreign corporation was created or organized under the law of the foreign country or U.S. possession or is domiciled there for tax purposes.

The credit cannot be taken against any tax imposed by section 881 on income not effectively connected with a U.S. business.

For purposes of section 902(a) (relating to tax deemed paid) and section 78 (relating to dividend gross-up), a foreign corporation claiming a foreign tax credit will be treated as a domestic corporation.

## K. No Deduction If a Credit Is Claimed

If a corporation elects for any tax year the benefits of the foreign tax credit to any extent, the election will apply to income, war profits, and excess profits taxes paid or accrued in the tax year to all foreign countries and U.S. possessions and no portion of the tax will be allowed as a deduction in the tax year or any succeeding tax year. (Regulations section 1.901-1(c).)

The election for any tax year may be made or changed at any time before the end of the period prescribed for making a claim for credit or refund of tax for the tax year. (Section 901(a).)

See section 908(b) concerning the deduction of a foreign tax credit that is denied because of the application of the international boycott provisions. Also, see section 907(b) concerning the deduction of certain foreign oil and gas extraction taxes.

Members of an affiliated group electing under section 243 to deduct 100% of qualifying dividends received from members of the same affiliated group are treated as one taxpayer for purposes of making the election under section 901(a). (Section 243(b)(3)(B).)

## L. Foreign Tax Redeterminations

**Notification requirements.**—If, as the result of a "foreign tax redetermination" (as defined in Temporary Regulations section 1.905-3T(c)), you are required (under Temporary Regulations section 1.905-3T) to redetermine your U.S. tax liability, you must file **Form 1120X**, Amended U.S. Corporation Income Tax Return, and Form 1118 with the Service Center where you filed the tax return on which you claimed the foreign tax credit to which the notice relates. You are required to give the following notification to the IRS:

(1) *Identifying information:* (a) your name; (b) your address; (c) your EIN; and (d) the tax year or years that are affected by the redetermination of your U.S. tax liability.

(2) *Foreign taxes paid or accrued (by you or on your behalf):*

(a) Basic information: (i) the dates on which the foreign taxes were paid; (ii) the rate of exchange on each date the foreign taxes were paid; and (iii) the amount of foreign taxes paid on each such date (in foreign currency).

(b) Additional information needed in cases where the redetermination is caused by:

- (i) A refund of foreign tax: the amount of foreign taxes refunded (in foreign currency).
  - (ii) Foreign taxes when paid that differ from the accrued amounts claimed as credits because of fluctuation in the value of the foreign currency in which the foreign taxes were paid: (A) the dates on which the foreign taxes were accrued; (B) the rate of exchange on each date the foreign taxes were accrued; and (C) the amount of foreign taxes accrued on each such date (in foreign currency).
  - (iii) Foreign taxes when paid that differ from accrued amounts claimed as credits because you are assessed additional or less foreign tax: (A) the original amounts and information described in (2)(b)(ii) above; (B) the amount of additional or reduced foreign tax (in foreign currency); and (C) the revised amounts and information described in (2)(b)(ii) above.
- (3) *Foreign taxes deemed paid or accrued under section 902 or section 960:*

(a) Basic information: (i) the dates and amounts of any dividend distributions or other inclusions made out of E&P for the affected year or years; and (ii) the information described in (2) above, as applicable.

(b) Additional information needed in the case of a redetermination:

- (i) That was caused by the fact that you fall into the exception to Temporary Regulations section 1.905-3T(d)(2) because you have "a foreign tax adjustment that exceeds 2%" (described in Temporary Regulations section 1.905-3T(d)(4)(ii)): Include a complete factual description justifying the reasons for overaccrual of foreign tax;
- (ii) For which pool adjustments and notification were required pursuant to Temporary Regulations sections 1.905-3T(d)(2)(ii)(B) and (C) and 1.905-3T(d)(2)(iii): Include a complete factual description justifying the reasons for the failure to attach the required notification or make the required adjustments.

If a foreign tax redetermination occurred with respect to foreign taxes deemed paid under section 902 or section 960 and you are not required to redetermine your U.S. tax liability, you must adjust the appropriate pool of foreign taxes and E&P in accordance with the rules outlined in Regulations section 1.905-3T(d)(2)(ii).

If an adjustment to the appropriate pool of foreign taxes and E&P is required, you must attach a notice of the adjustment to your tax return for the tax year during which the foreign tax redetermination occurs. You must provide the following information: (a) your name and EIN; (b) the foreign corporation's name, address, and EIN (if any); (c) the amount of any refunds of foreign taxes and the exchange rate as of the time of original payment of the refunded foreign taxes; (d) the amounts of unrefunded foreign taxes when paid and when accrued in foreign currency, the exchange rate for the accrual and payment dates of unrefunded foreign taxes, and the dollar amounts of unrefunded foreign taxes paid and accrued; and (e) the current balances of the pools of E&P and foreign taxes before and after the foreign tax redetermination. If you fail to attach the required notice, to provide the necessary information, or to make the required adjustments, you must provide notification of the foreign tax redetermination

under Temporary Regulations section 1.905-4T. The IRS may, in its discretion, make a redetermination of your U.S. tax liability and subject you to the interest provisions of section 6601 and the penalty provisions of section 6689.

**Interest and penalties.**—Interest is generally computed on the deficiency or overpayment that resulted from the foreign tax redetermination based on the rules of sections 6601 and 6611 (and the regulations thereunder). See Temporary Regulations section 1.905-4T(c) for additional information.

If you do not comply with the notification requirements outlined above within the time for filing specified above, you will be subject to the penalty provisions of section 6689 (and the regulations thereunder).

## Specific Instructions

### Separate Limitation Boxes at Top of Page 1

The credit must be computed separately (using a separate Form 1118) for foreign taxes paid or accrued with respect to each separate limitation. See General Instruction C for descriptions of separate limitation categories. **Note:** *If you have dividends from more than one noncontrolled section 902 corporation, you must complete a separate Form 1118 for dividends received from each such corporation. Each separate form must identify the name and country of incorporation of each noncontrolled section 902 corporation in the space provided. You must also complete an additional Form 1118 that shows the totals of all the separate Forms 1118 for each noncontrolled section 902 corporation. On this summary form, enter the word "Aggregate" in the space provided for "Name of Foreign Corporation."*

## Schedule A

In columns 2 through 7, report the gross income or (loss) from sources outside the U.S. with respect to the separate limitation for which you are completing the schedule. In columns 9 and 10, report the deductions applicable to gross income reported in columns 2 through 7. Be sure to **INCLUDE** in columns 2 through 7 and columns 9 and 10 the gross income and deductions that pertain to foreign branches and to the activities described in section 863(b).

**Note:** *In the prior version of the schedule you were required to **EXCLUDE** these amounts.*

See General Instruction D for general rules for computing separate limitation income or (loss) before adjustments.

**Column 1.**—Enter the two-letter codes (from page 8) of all foreign countries and U.S. possessions within which income is sourced and/or to which taxes were paid, accrued, or deemed paid.

**Column 2a.**—Include the following types of "deemed dividends" (before applying the gross-up rules of section 78) that are attributable to income in the separate limitation with respect to which you are completing this schedule:

(1) If you are a U.S. shareholder in a CFC, report all income you are deemed to have received under section 951(a)(1)(A) (see section 904(d)(3) and General Instruction C(9) for more information); and

(2) If you are a U.S. shareholder in a Passive Foreign Investment Company (PFIC) and you receive any distributions in respect of stock in that PFIC, report all income you are deemed to have received under section 1291.

**Column 3a.**—Report all other dividends (before gross-up) not included in column 2a

from sources outside the U.S. with respect to the separate limitation for which you are completing the schedule.

**Note:** *All dividends from a domestic corporation are of U.S. source, including dividends from a domestic corporation deriving 80% or more of its gross income from sources outside the U.S.*

**Columns 2b and 3b.**—Under section 78, taxes deemed paid by a domestic corporation under section 902 or section 960 with respect to distributions by a foreign corporation must be included in income as dividend gross-up. (See Regulations section 1.960-3(b) for exceptions.)

**Column 4.**—Enter all interest received from foreign sources. See section 861(c) for the treatment of interest from a domestic corporation that meets the foreign business requirement.

**Column 6.**—Include gross income, whether in the form of compensation, commissions, fees, etc., derived from the performance of technical, managerial, engineering, construction, scientific or similar services outside the United States. **INCLUDE** gross income from services performed through a foreign branch.

**Column 7.**—Include all other gross income from sources outside the U.S. with respect to the separate limitation for which you are completing the schedule. **INCLUDE** "all other" gross income of foreign branches and "all other" gross income to which the rules of section 863(b) apply. Attach a schedule identifying the gross income by type and by the foreign country or U.S. possession from which it was sourced.

**Column 9d.**—Include all other deductions definitely allocable to income from sources outside the U.S. (dividends, interest, etc.) with respect to the separate limitation for which you are completing the schedule. **INCLUDE** deductions allocable to income of foreign branches and section 863(b) income.

Include any reduction of foreign source net capital gain (as described in General Instruction D(2)).

**Column 10.**—Section 862(b) provides that a ratable part of expenses, losses, and other deductions that cannot be definitely allocated to some item or class of gross income shall be deducted from separate limitation gross income from sources outside the U.S. in arriving at separate limitation income or (loss) before adjustments. Report in column 10 only the apportioned share that relates to gross income reported in columns 2 through 7. Enter the amount from the applicable line of column (d), Part II, Schedule H.

## Schedule B

### Part I—Foreign Taxes Paid or Accrued and Deemed To Have Been Paid

Report only foreign taxes paid or accrued and deemed paid with respect to the separate limitation for which Form 1118 is being completed.

**Column 1.**—Generally, you claim the foreign tax credit for the tax year in which the taxes were paid or accrued, depending on the method of accounting you used. However, if you use the cash method of accounting, you may make an election under section 905(a) to claim the credit on the basis of accrued taxes. If you make the election, you must compute the foreign tax credit for all subsequent tax years on the same basis and such credits are subject to the redetermination provisions of section 904(c).

If you claim a credit for taxes accrued, show both the date accrued and the date paid (if paid).

**Columns 2a through 2h.**—Report all foreign tax amounts in U.S. dollars. If amounts were converted from foreign currency, attach a schedule showing in detail how the conversion rates were determined. See General Instruction G for proof of credits required.

Include in column 2d foreign taxes paid or accrued on foreign branch taxable income to which the rules of section 863(b) apply.

**Note:** Do not include these overlapping amounts in column 2e.

## Part II—Computation of Foreign Tax Credit

**Line 4.**—See General Instruction H.

**Line 6.**—To determine whether you must complete separate Schedule J, see the self-contained instructions on that schedule.

**Line 7b.**—See General Instructions D(2) through D(4) for examples of adjustments to your “worldwide income.”

**Line 9.**—The foreign tax credit is allowed against the total U.S. income tax imposed by chapter 1 (reduced by the possessions tax credit of section 936) but not against any tax listed under section 26(b).

## Part III—Summary of Credits From Separate Forms 1118

Complete Schedule B, Part III on only one Form 1118. Enter the credits from Schedule B, Part II, line 11 of the separate Forms 1118 on lines 1 through 9, Part III.

**Line 11.**—See instructions for Schedule G, line D.

## Schedule C

### Part I—Distributions from Post-1986 Earnings and Profits

**Column 2.**—Enter the applicable two-digit foreign country and U.S. possession codes from page 8.

**Column 3.**—Enter the foreign corporation’s “post-1986 undistributed E&P” which is defined in section 902(c)(1) as the amount of the foreign corporation’s E&P (computed in accordance with sections 964 and 986) accumulated in tax years beginning after 1986: (1) as of the close of the tax year of the foreign corporation in which the dividend is distributed, and (2) without reduction for dividends distributed during such tax year.

**Note:** Report all amounts in your “functional currency” as defined in section 985(b).

**Column 4.**—Enter your “post-1986 foreign income taxes” which is defined in section 902(c)(2) as the sum of: (1) the foreign income taxes with respect to the tax year of the foreign corporation in which the dividend is distributed, and (2) the foreign income taxes with respect to prior tax years beginning after 1986, to the extent such foreign taxes were not deemed paid with respect to dividends distributed by the foreign corporation in prior tax years. **Note:** Report all amounts in U.S. dollars using the exchange rate rules specified in section 986(a).

**Column 7a.**—Report all dividends paid or deemed paid in your “functional currency” as defined in section 985(b).

**Column 7b.**—Report the column 7a amount translated into U.S. dollars at the “appropriate exchange rate” (as defined in section 989(b)). If your functional currency is the U.S. dollar, do not complete column 7b.

## Part II—Distributions from Pre-1987 Earnings and Profits

**Column 2.**—If the dividends are from the accumulated E&P of more than one tax year, the tax deemed to have been paid must be computed and shown on a separate line for each tax year. Enter for each tax year the year and month in which the tax year ended. For example, if you are computing deemed paid taxes with respect to distributions from a tax year that ended June 30, 1986, enter “8606.”

**Column 3.**—Enter the applicable two-digit foreign country and U.S. possession codes from page 8.

**Column 4.**—For each line, enter the E&P for the tax year you indicated in column 2.

**Note:** Foreign currency amounts must be translated to U.S. dollars using the applicable pre-1987 rules.

**Column 5.**—Enter the amount of foreign taxes paid or accrued on the E&P entered in column 4 for the tax year indicated in column 2. See instructions for Line E, Part II, Schedule G for information regarding reduction of foreign taxes for failure to furnish information required under section 6038.

**Column 8.**—Enter the amount of dividends: (1) paid or constructively distributed by the related foreign corporation; and (2) paid or deemed distributed by the DISC or former DISC to the domestic corporation.

For purposes of section 902, IRS may determine from which tax year’s accumulated profits the dividends were paid.

## Schedule D

### Part I—Distributions from Post-1986 Earnings and Profits

**Columns 2, 3, 4, 7a and 7b.**—Follow the instructions for the corresponding columns of Part I, Schedule C.

### Part II—Distributions from Pre-1987 Earnings and Profits

**Columns 2, 3, 4, 5 and 8.**—Follow the instructions for the corresponding columns of Part II, Schedule C.

## Schedule E

### Part I—Distributions from Post-1986 Earnings and Profits

**Columns 2, 3 and 4.**—Follow the instructions for the corresponding columns of Part I, Schedules C and D.

**Columns 5a and 5b.**—Follow the instructions for columns 7a and 7b, Part I, Schedule C.

### Part II—Distributions from Pre-1987 Earnings and Profits

**Columns 2, 3, 4 and 5.**—Follow the instructions for the corresponding columns of Part II, Schedule C.

**Column 6.**—Follow the instructions for column 8, Part II, Schedule C.

## Schedule F

This schedule is to be completed for each applicable separate limitation.

### Part I—Section 863(b)

Section 863(b) and the regulations thereunder provide special rules for determining taxable income from sources outside the U.S. with respect to gross income derived partly within and partly outside the U.S. Enter the gross income and definitely allocable deductions for each foreign country as indicated.

**Note:** Foreign branch income and deductions to which the rules of section 863(b) apply must be included in Part I (not in Part II).

## Part II—Foreign Branches

Enter the gross income and definitely allocable deductions for each foreign country as indicated. Include, for each foreign branch, an income statement, balance sheet, and schedule of midyear remittances.

**Note:** Foreign branch income and deductions to which the rules of section 863(b) apply must be included in Part I (not in Part II).

## Schedule G

This schedule is to be completed for each applicable separate limitation.

### Part I—Computation of Reduction of Taxes Under Section 901(j)

If the provisions of section 901(j)(2) apply to a foreign country, taxes paid to that country may not be used in computing the foreign tax credit. Rev. Rul. 87-35, 1987-1 C.B. 182, provides a list (based on information supplied by the Department of State) of countries to which the provisions of section 901(j) apply. The list includes: Afghanistan, Albania, Angola, Cambodia, Cuba, Iran, Libya, North Korea, the People’s Democratic Republic of Yemen, Syria, and Vietnam. See section 901(j)(2)(C) for special rule for South Africa. See Notice 88-47, 1988-16 I.R.B. 27, for special rule for Panama.

**Column 2.**—Enter the taxable income or loss for each foreign country as indicated.

**Note:** Be sure to include all taxable income (and not just dividends).

**Column 3.**—Enter the foreign income tax paid, accrued or deemed paid for each foreign country as indicated.

### Part II—Summary of Reductions of Taxes Paid, Accrued or Deemed Paid

Schedule G, Part II is optional. If you choose to complete this part, enter all amounts as shown and carry the total over to Schedule B, Part II, line 3.

**Line A—Reduction of Taxes Under Section 901(e).**—Attach a separate schedule showing the computation (described in (a) and (b) below) of the reduction of tax with respect to foreign mineral income in accordance with Regulations section 1.901-3(a)(3)(iv).

The amount of any income, war profits, and excess profits taxes paid or accrued, or deemed paid during the tax year to any foreign country or U.S. possession with respect to foreign mineral income derived from sources within such country or possession must be reduced by the lesser of: (a) the amount of such foreign taxes minus the amount of U.S. tax computed under Chapter 1 of the Code with respect to such foreign mineral income, or (b) the amount of U.S. tax which would be computed under Chapter 1 of the Code with respect to such foreign mineral income without regard to the deduction for percentage depletion under section 613 minus the amount of U.S. tax computed under Chapter 1 of the Code with respect to such foreign mineral income. The reduction must be made on a country-by-country basis. (Regulations section 1.901-3(a)(1).)

The reduction applies only if a deduction for percentage depletion under section 613 was allowed with respect to any part of such foreign mineral income. (Regulations section 1.901-3(a)(3)(i).)

**Line D—Reduction of Taxes Due to International Boycott Provisions.**—If a person, or a member of a “controlled group” (as defined in section 993(a)(3)) that includes that person, agrees to participate in, or cooperate with, an international boycott, that



person must file **Form 5713**, International Boycott Report. Furthermore, that person's foreign tax credit is affected as follows:

(1) If the taxes specifically attributable to boycott operations can be determined, reduce the total taxes available for the foreign tax credit by entering these amounts from Form 5713, Schedule C, line 2b on Form 1118, Schedule G, Part II, Line D.

(2) If the taxes specifically attributable to boycott operations cannot be determined, compute the reduction by multiplying the credit otherwise allowable by the international boycott factor (Form 5713, Schedule A, line 3) and enter the result on Form 1118, Schedule B, Part III, line 11.

For additional information, see Form 5713 and its separate instructions.

#### **Line E—Reduction of Taxes For Section 6038(c) Penalty.**

For each failure of a domestic corporation to furnish any return or any information in any return required under section 6038 by the prescribed date: (1) in the application of sections 902 and 960, all taxes paid or deemed paid by all foreign corporations controlled by such domestic corporation must be reduced by 10%; and (2) in the application of section 901, all taxes paid or deemed paid (except taxes deemed paid under section 904(c) and taxes reduced in the application of sections 902 and 960) by such corporation must be reduced by 10%. If such failure continues for 90 days or more after the date of written notice by IRS to such domestic corporation, the reductions are 10% plus 5% for each 3-month period or fraction thereof during which such failure continues after expiration of the 90-day period.

A penalty of \$1,000 is also imposed for failing to supply the information for each CFC within the time prescribed under section 6038. Additionally, if the required information is not submitted within 90 days after the IRS has mailed notice to the U.S. person, an additional \$1,000 penalty (per corporation) is charged for every 30 days that the information is not submitted. The increase in any penalty under section 6038(b)(2) may not exceed \$24,000. See section 6038(c)(3) for rules coordinating these penalties.

#### **Line F—Other Reductions of Taxes.**

Include on this line the reduction for withholding in excess of 5% for noncontrolled section 902 corporations and the reduction for foreign taxes on foreign oil related income of section 907(b).

## **Schedule H**

**Purpose of schedule.**—Schedule H is used to apportion deductions that are "not definitely allocable" among "statutory groupings." The results of the schedule are used to determine foreign source taxable income (on Schedule A), which is used to determine your foreign tax credit limitation (on Schedule B).

**Note:** *Schedule H is generally completed only once (unlike Schedule A; Schedule B, Parts I & II; Schedules C through G; and Schedule I; which are completed for each applicable separate limitation).*

### **Part I—Research and Development Deductions**

The rules regarding the apportionment of R&D deductions are set forth in Regulations section 1.861-8(e)(3) and Temporary Regulations section 1.861-14T. Generally, you may use either the Sales Method (columns (a)(i) through (a)(v)) OR the Gross Income Method (columns (b)(vi) and (b)(vii)).

**Caution:** *If you are completing Schedule H for your first tax year that began after 8/1/87, see "One-Year TAMRA Rule" below.*

#### **Column (a) Sales Method**

Complete these columns only if you elect the sales method of apportioning R&D deductions described in Regulations section 1.861-8(e)(3)(ii). The regulations state that, under this method, R&D deductions are generally considered to be definitely related to all gross income reasonably connected with one or more of the 32 product categories based on the Standard Industrial Classification (SIC) system (rather than the income generated by the particular product that benefited from the research activity). Enter in the spaces provided the two-digit SIC Code numbers of the product lines to which the R&D deductions are considered to be related. (See Regulations section 1.861-8(e)(3) for more information about SIC Codes.) **Note:** *If you have more than two product lines, see the last paragraph of the Schedule H instructions regarding computer generated forms.*

#### **Columns (a)(i) and (a)(iii)**

**Line 1.**—Enter the worldwide gross sales for the product lines.

**Lines 3a through 3h.**—Enter the gross sales that resulted in gross income for each statutory grouping.

**Line 4.**—Add lines 3a through 3h. **Note:** *This total should be less than the total sales on line 1 because this line 4 total does not include the gross sales that give rise to gross income in the residual grouping.*

#### **Columns (a)(ii) and (a)(iv)**

**Line 1.**—Enter the total R&D deductions connected with the product lines.

**Line 2.**—In arriving at the line 2 amounts, you must first reduce your line 1 totals by the rules outlined in Regulations section 1.861-8(e)(3)(i)(B). These rules consider the fact that you will sometimes undertake R&D "solely to meet legal requirements imposed by a particular political entity with respect to improvement or marketing of specific products or processes" AND you would not reasonably expect the results of such research "to generate amounts of gross income (beyond de minimis amounts) outside a single geographic source."

You must then further reduce your line 1 totals by the "exclusive apportionment" rules of Regulations section 1.861-8(e)(3)(ii)(A). Under these rules, 30% of your R&D deductions are "apportioned exclusively to the statutory grouping of gross income or the residual grouping of gross income, as the case may be, arising from the geographic source where the R&D activities which account for more than 50% of the amount of such deduction were performed." If the 50% test is not met, then no part of the deduction is apportioned under these rules.

**Lines 3a through 3h.**—To determine the amount of R&D deductions to be apportioned to each statutory grouping, divide the gross sales apportioned to the statutory grouping by the worldwide gross sales for the product line and multiply the result by the R&D deductions to be apportioned. **Note:** *If you received dividends from more than one noncontrolled section 902 corporation, see the last paragraph of the Schedule H instructions.*

**Example 1:** To determine the amount to be entered on line 3a, column (a)(ii), you must: (1) Divide the amount you entered on line 3a, column (a)(i) by the amount you entered on line 1, column (a)(i); and (2) Multiply the result by the amount you entered on line 2, column (a)(ii).

**Example 2:** To determine the amount to be entered on line 3b, column (a)(iv), you must: (1) Divide the amount you entered on line 3b, column (a)(iii) by the amount you entered on line 1, column (a)(iii); and (2) Multiply the result by the amount you entered on line 2, column (a)(iv).

**Line 4.**—Add lines 3a through 3h.

**Note:** *This total will generally be less than the total R&D deductions on line 2 because this line 4 total does not include the R&D deductions that are implicitly apportioned to the residual grouping.*

#### **Column (b) Gross Income Methods**

Complete these columns only if you elect one of the gross income methods of apportioning R&D deductions described in Regulations section 1.861-8(e)(3)(iii). Check the "Option 1" box if you use the option described in Regulations section 1.861-8(e)(3)(A). Check the "Option 2" box if you use the option described in Regulations section 1.861-8(e)(3)(B).

#### **Column (b)(v)**

**Line 1.**—Enter your total gross income (excluding exempt income in accordance with Temporary Regulations section 1.861-8T(d)(2)).

**Lines 3a through 3h.**—Enter the gross income within each statutory grouping.

**Line 4.**—Add lines 3a through 3h.

**Note:** *This total will generally be less than the total gross income on line 2 because this line 4 total does not include the gross income that is implicitly apportioned to the residual grouping.*

#### **Column (b)(vii)**

**Line 1.**—Enter your total R&D deductions.

**Line 2.**—In arriving at the line 2 amount, reduce your line 1 total by the R&D deductions incurred solely to meet legal requirements. (See Regulations section 1.861-8(e)(3)(i)(B).) **Note:** *Do not reduce your line 1 total by the "exclusive apportionment" rules of Regulations section 1.861-8(e)(3)(ii)(A) (as was permitted under the Sales Method).*

**Lines 3a through 3h.**—To determine the amount of R&D deductions to be apportioned to each statutory grouping: (1) If you checked Option 1, divide the gross income apportioned to the statutory grouping by your total gross income and multiply the result by the R&D deductions to be apportioned; or (2) If you checked Option 2, enter the appropriate amount as described in Regulations section 1.861-8(e)(3)(B).

**Line 4.**—Add lines 3a through 3h.

**Note:** *This total will generally be less than the total R&D deductions you entered on line 2 because this line 4 total does not include the R&D deductions that are implicitly apportioned to the residual grouping.*

#### **One-Year TAMRA Rule**

If you are completing Schedule H for your first tax year that began after 8/1/87, the rules contained in TAMRA section 4009 will be substituted for the rules described above in completing the schedule with respect to one-third of your "qualified research and experimental expenditures" (defined in section 4009(b)) for that tax year. However, if you are filing a "short period return" (as defined in section 443) for that tax year, see TAMRA section 4009(e) to determine the percentage greater than one-third with respect to which the rules contained in TAMRA section 4009 will be substituted.

Generally, the rules contained in TAMRA section 4009 differ from the rules described above in that the exclusive apportionment rules (described in the instructions for line 2,

columns (a)(ii) and (a)(iv)) have been modified (including a substitution of "64%" for "30%") and are to be used for both the column (a) sales method and the column (b) gross income methods.

As a result of TAMRA section 4009, for your first tax year that began after 8/1/87, you must complete Schedule H twice. On the first schedule, complete only column (a) OR column (b) of Part I for the one-third (or greater percentage if you are filing a short-period return) of qualified R&D deductions to be allocated and apportioned under the rules set forth in TAMRA section 4009. On the second schedule, complete column (a) OR column (b) of Part I for the remaining two-thirds (or lower percentage if you are filing a short-period return) of qualified R&D deductions to be allocated and apportioned using the rules described above (i.e., the specific instructions for Schedule H before these rules for the "one-year TAMRA rule.") When completing column (c) of the second Schedule H, add all of the column (a) or (b) amounts from both schedules. Complete Part II of the second schedule using the rules described above.

## Part II—Interest Deductions, All Other Deductions, And Total Deductions

### Columns (a)(i) through (b)(iv)

Use these columns to apportion your interest deductions. The rules regarding the apportionment of interest deductions are outlined in Regulations section 1.861-8 and Temporary Regulations sections 1.861-8T through 1.861-13T. Columns (a) and (b) are subdivided into "Non-Financial Corporations" and "Financial Corporations." (See Temporary Regulations section 1.861-11T(d)(4)(ii) for the definition of "financial corporations.") Temporary Regulations section 1.861-11T(d)(4) explains that, for purposes of allocating interest deductions, members of an affiliated group that are financial corporations must be treated as a separate affiliated group. Therefore, complete columns (a)(i) and (b)(iv) for members of your affiliated group that are "financial corporations" and columns (a)(i) and (b)(iii) for members of your affiliated group that are non-financial corporations.

### Columns (a)(i) and (a)(ii)

**Line 1a.**—Enter the "average" of the total assets of your affiliated group. See Temporary Regulations section 1.861-9T(g)(2) for the definition of "average" for these purposes.

**Line 1b.**—Temporary Regulations section 1.861-10T(e) sets forth an exception to the general rule of fungibility for excess related party indebtedness. Enter on line 1b the portion of the assets included on line 1a that is characterized as excess related party indebtedness.

**Line 1c.**—Temporary Regulations section 1.861-10T lists other exceptions to the general rule of fungibility (such as qualified nonrecourse indebtedness and integrated financial transactions). Enter on line 1c the portion of all other assets that attract specifically allocable interest deductions.

**Line 1d.**—Enter the total of the exempt assets and "assets without directly identifiable yield" that are to be excluded from the interest apportionment formula as specified in Temporary Regulations sections 1.861-8T(d)(2) and 1.861-9T(g)(3).

**Lines 3a through 3h.**—For purposes of the apportionment of interest expense, the assets on line 2 are characterized as assets in one of

the statutory groupings or as belonging to the residual grouping. The rules for the characterization of assets are set forth in Temporary Regulations sections 1.861-9T(g)(3), 1.861-12T(g)(2) and 1.861-12T(h)(2). On lines 3a through 3h, enter the value of the assets in each of the statutory groupings.

**Line 4.**—Add lines 3a through 3h.

**Note:** *This total will generally be less than the total assets on line 2 because this line 4 total does not include the assets that are implicitly apportioned to the residual grouping.*

### Columns (b)(iii) and (b)(iv)

**Line 1a.**—Enter the total interest deductions for the members of your affiliated group. Temporary Regulations section 1.861-9T(a) states that your total interest deductions include: (1) any expense that is currently deductible under section 163 (including original issue discount); and (2) "interest equivalents" (as defined in Temporary Regulations section 1.861-9T(b)) that are currently deductible. Temporary Regulations section 1.861-9T(c) lists the sections that disallow or suspend interest deductions or that require the capitalization of interest deductions.

**Line 1b.**—Enter the interest deductions associated with the assets on line 1b of columns (a)(i) and (a)(ii), respectively, that attract specifically allocable interest deductions under Temporary Regulations section 1.861-10T(e). **Note:** *These interest deductions will be divided among the statutory groupings and will appear as a definitely allocable deduction in Schedule A, column 9(d).*

**Line 1c.**—Enter the interest deductions associated with the assets on line 1c of columns (a)(i) and (a)(ii), respectively, that attract specifically allocable interest deductions.

**Line 1d.**—Enter the total amount of interest deductions that are allowed transition relief under the Tax Reform Act of 1986 and under TAMRA. **Note:** *A portion of these interest deductions may be apportioned to the various statutory groupings. If so, it is to be included on lines 3a through 3h of these columns as explained below.*

**Lines 3a through 3h.**—To determine the amount of interest deductions to be apportioned to each statutory grouping, divide the assets apportioned to the statutory grouping by the total assets apportioned and multiply the result by the interest deductions to be apportioned. Add to this amount any interest deductions that are apportioned to this category under the transition rules referenced above in columns (b)(iii) and (b)(iv), line 1d.

**Example 1:** To determine the amount to be entered on line 3a, column (b)(iii), you must: (1) Divide the amount you entered on line 3a, column (a)(i) by the amount you entered on line 2, column (a)(i); (2) Multiply the result by the amount you entered on line 2, column (b)(iii); and (3) Add any amount that is apportioned to this category under the transition rules.

**Example 2:** To determine the amount to be entered on line 3b, column (b)(iv), you must: (1) Divide the amount you entered on line 3b, column (a)(ii) by the amount you entered on line 2, column (a)(ii); (2) Multiply the result by the amount you entered on line 2, column (b)(iv); and (3) Add any amount that is apportioned to this category under the transition rules.

**Line 4.**—Add the amounts on lines 3a through 3h. **Note:** *This total will generally be less than the total interest deductions on line 2 because this line 4 total does not include the interest deductions that are implicitly apportioned to the residual grouping.*

### Column (c)

Complete this column to apportion all other deductions not definitely allocable (other than interest deductions and R&D deductions). Regulations section 1.861-8 and Temporary Regulations sections 1.861-8T and 1.861-14T describe the apportionment of these "other" deductions.

**Line 1a.**—Enter the total amount of "other" deductions. Examples of these "other" deductions include: stewardship expenses; legal and accounting expenses; and other expenses related to certain supportive functions such as overhead, general and administrative, advertising and marketing.

**Lines 3a through 3j.**—Enter the amounts apportioned to each statutory grouping.

**Line 4.**—Add lines 3a through 3j.

**Note:** *This total will generally be less than the other deductions on line 2 because this line 4 total does not include the other deductions that are implicitly apportioned to the residual grouping.*

### Column (d)

Enter all totals as instructed. The results of lines 3a through 3j should be entered in column 10 of the corresponding Schedule A for each of these separate limitations.

**Computer Generated Schedule H.**—You may submit computer generated Schedules H if they are in conformity with the IRS version of the schedule. For example, if you have more than two product lines (under the sales method of apportioning R&D deductions) OR if you received dividends from more than two noncontrolled section 902 corporations, you will have to expand the Schedule H to properly apportion deductions.

## Schedule I

### Computation of Reduction of Oil and Gas Extraction Taxes

Attach Schedule I (Form 1118) if you are claiming a foreign tax credit with respect to any income taxes paid, accrued, or deemed to have been paid during the tax year with respect to foreign oil and gas extraction income.

## Schedule J

### Separate Limitation Loss Allocations and Other Adjustments Necessary to Determine Numerators of Limitation Fractions, Year-End Recharacterization Balances and Overall Foreign Loss Account Balances

Attach Schedule J (Form 1118) to show the adjustments to separate limitation income or losses in determining the numerators of the limitation fractions for each separate limitation; the year-end balances of separate limitation losses that were allocated among other separate limitations (in the current year or in prior years) that have yet to be recharacterized; and the balances in your overall foreign loss accounts at the beginning of the tax year, any adjustments to the account balances, and the balances in your overall foreign loss accounts at the end of the tax year.

**Foreign Country and U.S. Possession Codes.**—Enter the following codes as requested in: Schedule A, column 1; Schedule C, Part I, column 2; Schedule C, Part II, column 3; Schedule D, Part I, column 2; Schedule D, Part II, column 3; Schedule E, Part I, column 2; and Schedule E, Part II, column 3.

Country	Code	Country	Code	Country	Code	Country	Code	Country	Code
Afghanistan	AF	Comoros	CN	Iceland	IC	Namibia	WA	Svalbard	SV
Albania	AL	Congo	CF	India	IN	Nauru	NR	Swaziland	WZ
Algeria	AG	Cook Islands	CW	Indonesia	ID	Navassa Island	BQ	Sweden	SW
American Samoa	AQ	Coral Sea Islands Territory	CR	Iran	IR	Nepal	NP	Switzerland	SZ
Andorra	AN	Costa Rica	CS	Iraq	IZ	Netherlands	NL	Syria	SY
Angola	AO	Cuba	CU	Iraq-Saudi Arabia		Netherlands Antilles	NA	Taiwan	TW
Anguilla	AV	Cyprus	CY	Neutral Zone	IY	New Caledonia	NC	Tanzania, United Republic of	TZ
Antarctica	AY	Czechoslovakia	CZ	Ireland	EI	New Zealand	NZ	Thailand	TH
Antigua and Barbuda	AC	Denmark	DA	Isle of Man	IM	Nicaragua	NU	Togo	TO
Argentina	AR	Djibouti	DJ	Israel	IS	Niger	NG	Tokelau	TL
Aruba	AA	Dominica	DO	Italy	IT	Nigeria	NI	Tonga	TN
Ashmore and Cartier Islands	AT	Dominican Republic	DR	Ivory Coast	IV	Niue	NE	Trinidad and Tobago	TD
Australia	AS	Ecuador	EC	Jamaica	JM	Norfolk Island	NF	Tromelin Island	TE
Austria	AU	Egypt	EG	Jan Mayen	JN	Northern Ireland	UK	Trust Territory of the Pacific Islands	PS
Azores	PO	El Salvador	ES	Japan	JA	Northern Mariana Islands	CQ	Tunisia	TS
Bahamas, The	BF	Equatorial Guinea	EK	Jersey	JE	Norway	NO	Turkey	TU
Bahrain	BA	Ethiopia	ET	Johnston Atoll	JQ	Oman	MU	Turks and Caicos Islands	TK
Bangladesh	BG	Europa Island	EU	Jordan	JO	Pakistan	PK	Tuvalu	TV
Barbados	BB	Falkland Islands (Islas Malvinas)	FA	Juan de Nova Island	JU	Palmyra Atoll	LQ	Uganda	UG
Bassas da India	BS	Faroe Islands	FO	Kenya	KE	Panama	PM	Union of Soviet Socialist Republics	UR
Belgium	BE	Fiji	FJ	Kingman Reef	KQ	Papua New Guinea	PP	United Arab Emirates	TC
Belize	BH	Kiribati	KR	Korea, Democratic People's Republic of (North)	KN	Paracel Islands	PF	United Kingdom	UK
Benin	BN	Korea, Republic of (South)	KS	Kuwait	KU	Paraguay	PA	Upper Volta (Burkina Faso)	UV
Bermuda	BD	Laos	LA	Lebanon	LE	Peru	PE	Uruguay	UY
Bhutan	BT	Lesotho	LT	Liechtenstein	LS	Philippines	PG	Vanuatu	NH
Bolivia	BL	Liberia	LI	Luxembourg	LU	Pitcairn Islands	PC	Vatican City	VT
Botswana	BC	Libya	LY	Madagascar	MA	Poland	PL	Venezuela	VE
Bouvet Island	BV	Malawi	MI	Maldives	MV	Portugal	PO	Vietnam	VM
Brazil	BR	Malaysia	MY	Mali	ML	Puerto Rico	RQ	Virgin Islands (British)	VI
British Indian Ocean Territory	IO	Malta	MT	Marshall Islands	RM	Qatar	QA	Virgin Islands (U.S.)	VQ
Brunei	BX	Marshall Islands	RM	Martinique	MB	Reunion	RE	Wake Island	WQ
Bulgaria	BU	Mauritania	MR	Mayotte	MF	Romania	RO	Wallis and Futuna	WF
Burkina Faso	UV	Mauritius	MP	Mexico	MX	Rwanda	RW	West Bank	WE
Burma	BM	Micronesia, Federated States of	FM	Micronesia		St. Christopher-Nevis	SC	Western Sahara	WI
Burundi	BY	Midway Islands	MQ	Moldova	MD	St. Helena	SH	Western Samoa	WS
Cambodia (Kampuchea)	CB	Monaco	MN	Mongolia	MG	St. Lucia	ST	Yemen (Aden)	YS
Cameroon	CM	Montserrat	MH	Montserrat		St. Pierre and Miquelon	SB	Yemen (Sana'a)	YE
Canada	CA	Morocco	MO	Mozambique	MZ	St. Vincent and the Grenadines	VC	Yugoslavia	YO
Canary Islands	SP	Mozambique	MZ			San Marino	SM	Zaire	CG
Cape Verde	CV					Sao Tome and Principe	TP	Zambia	ZA
Cayman Islands	CJ					Saudi Arabia	SA	Zimbabwe	ZI
Central African Republic	CT					Senegal	SG	Other Countries	OC
Chad	CD					Seychelles	SE		
Chile	CI					Sierra Leone	SL		
China, Peoples Republic of	CH					Singapore	SN		
Christmas Island (Indian Ocean)	KT					Solomon Islands	BP		
Christmas Island (Pacific Ocean)	KR					Somalia	SO		
Clipperton Island	IP					South Africa	SF		
Cocos (Keeling) Islands	CK					Spain	SP		
Colombia	CO					Sprately Islands	PG		
						Sri Lanka	CE		
						Sudan	SU		
						Suriname	NS		